

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL ESTIMATE**

BILL NUMBER: HOUSE BILL 1188
SHORT TITLE: SCHOOL DISTRICT SALES TAX REFUNDS
SPONSOR(S): REP. DECKER

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
REVENUES (\$Million)					
State General Fund	-9.5	-6.8	-7.2	-7.7	-8.1
Local Government	-4.75	-3.4	-3.6	-3.85	-4.05
PRINCIPAL DEPARTMENT AFFECTED: The sales tax is administered by the Department of Revenue					
EFFECTIVE DATE: Applies to taxes paid on or after January 1, 1996. In addition, the bill extends the deadline for filing refund applications for the 1995-96 fiscal year from December 31, 1996 to January 1, 1998.					

BILL SUMMARY: Currently counties, cities, and specifically-named local authorities are eligible for an annual refund of state and local sales taxes paid. The refund is normally granted in February and applies to the taxes paid during the most recent fiscal year. The bill would allow refunds for purchases by local boards of education that are funded from local voter-approved bonds. In addition, the refunds may be used only for the purposes for which the bonds were approved.

ASSUMPTIONS AND METHODOLOGY: The starting point in this analysis was a review of the county general obligation school bonds sold by the State Treasurer for the years 1990-91 through 1995-96. These numbers are shown below:

	(\$ Millions)
90-91	\$211.7
91-92	194.1
92-93	181.5
93-94	346.7
94-95	203.5
95-96	468.8

Since the bill is retroactive to taxes paid on or after January 1, 1996 the 1997-98 fiscal year will bear the cost of taxes paid for an 18-month period (January 1, 1996-June 30, 1997). For the period January 1-June 30, 1996 the bond-financed construction was assumed to be 50% of an average of the 1993-94 and 1994-95 bond sales amounts. This assumption was used because there is a lag between the time bonds are sold and the date of construction begins.

In addition, contractors submit invoices at periodic intervals throughout the project life. For the July 1, 1996-June 30, 1997 period the construction activity financed by bonds was assumed to be an average of the 1994-95 and 1995-96 fiscal year amounts. For 1997-98 the activity level was a simple average of the most recent 3 years of experience. For future years, 6% annual growth was used (ties to the General Fund Financial Model estimate of state personal income growth). It is difficult to know whether the experience of the last few years is a good proxy for the future, given voter approval of a \$1.8 billion state bond authorization. However, conversations with the N.C. Association of County Commissioners indicates that many of the fast-growing urban counties plan to supplement the state bonds with their own bonds and installment purchase financing to meet their substantial facility needs.

The analysis also used 50% as the portion of the total expenditures that involved tangible personal property versus the labor component. The estimates do not take into account the fact that in some counties interlocal agreements are used by the county and the school board to take advantage of the refunds permitted to counties.

FISCAL RESEARCH DIVISION (733-4910)

PREPARED BY: Dave Crofts

APPROVED BY: Tom CovingtonTomC

DATE: May 1, 1997



Signed Copy Located in the NCGA Principal Clerk's Offices